

**GUIDE TO**

**M I N N E S O T A**

*Housing  
Finance Agency*

*1999*

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645 State Office Building  
Saint Paul, Minnesota 55155

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November 1998

# **MINNESOTA HOUSING FINANCE AGENCY**

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# STATE OF MINNESOTA

OFFICE OF THE GOVERNOR  
130 STATE CAPITOL  
SAINT PAUL 55155

ARNE H. CARLSON  
GOVERNOR

To the Incoming Administration:

As you begin your team, I am pleased to report that in the past eight years Minnesota has successfully advanced major affordable housing initiatives that have helped thousands of people and their communities. We have accomplished this through unprecedented partnership with the private sector and careful attention to program and process innovation and efficiency improvements.

Among our accomplishments:

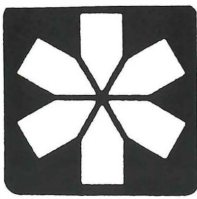
- The Economic Vitality and Housing Initiative. In collaboration with the Metropolitan Council, the Family Housing Fund and the Greater Minnesota Housing Fund, we have increased the production of affordable single family and multifamily housing in communities experiencing job growth.
- The Family Homeless Prevention and Assistance Program. We have reoriented Minnesota's approach to the problem of homelessness by focusing on prevention in addition to homelessness assistance.
- Preservation of Federally Subsidized Housing. We have taken a unique, proactive approach to preserving this portfolio of affordable housing.
- Rent Assistance for Family Stabilization. This rent assistance program for families receiving public assistance has helped hundreds of families while they complete their self-sufficiency programs and move into jobs.
- Bridges. This rent assistance program has helped persons with serious and persistent mental illness avoid institutionalization and remain "at home" in the community.
- Homeownership Training and Foreclosure Prevention. We have developed a statewide network to provide homeownership education and counseling and foreclosure prevention assistance in order to support successful homeownership for households of color and lower income borrowers.

Although the challenges are great, the work of the past eight years has created a sound approach and a solid record in addressing Minnesota's needs for decent, safe, affordable homes and stronger communities. I wish you and your administration the best as you continue to work on this important challenge.

Warmest regards,

A handwritten signature in black ink that reads "Arne H. Carlson".

ARNE H. CARLSON  
Governor



**MINNESOTA  
HOUSING  
FINANCE  
AGENCY**

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November 4, 1998

To the Incoming Commissioner:

Congratulations and welcome to the Minnesota Housing Finance Agency! You now have the opportunity to lead the finest housing finance agency and the most committed and capable group of affordable housing professionals in the country.

The letter from Governor Carlson outlines some of the MHFA's accomplishments in the past eight years. In addition, I would like to highlight additional organizational achievements during the same period:

- We are a mission-driven organization. We have strengthened our commitment to using strategic policy guidelines to inform our investment of affordable housing funds.
- We have achieved an unprecedented level of public/private cooperation and partnership. We have forged working relationships with private and other public agencies in both the single family and multifamily arenas on a variety of funding, policy and operational issues.
- We developed and implemented an innovative human resources system called PROGRES, the purpose of which is to better help the Agency meet its strategic goals. Following legislative direction in 1993, the MHFA reengineered its classification system to create a competency-based classification system that reduced 52 civil service classifications into seven job families. The experiment has now expanded to encompass our hiring, performance communication and compensation system.

You will experience great challenges and great rewards as you tackle the affordable housing issues facing Minnesota. My best wishes to you.

Sincerely,

Katherine G. Hadley  
Commissioner

# MHFA Summary

The Minnesota Housing Finance Agency (the Agency or MHFA) is proud of its record of addressing Minnesota's basic housing needs and helping build stronger communities. Over the years, the Agency has provided 5.2 billion in housing loans and subsidies. Over 253,000 Minnesota households have received program assistance to make their housing more affordable, improve the condition or quality, move into newly-constructed homes, or make the housing more accessible or energy efficient.

The Agency focuses its resources on low-income households. Nearly fifty percent of all households which received assistance through an MHFA housing program in 1997 (the most recent available data) had annual incomes of less than \$24,000; this is less than the Department of Housing and Urban Development (HUD) definition for a very low-income household.

The summary data of Agency activity is impressive. Since its creation in 1971, the Agency has:

- Provided \$780 million in financing for 574 developments containing 26,853 rental housing units throughout Minnesota.
- Administered over \$1.065 billion of Federal Section 8 Housing Assistance Payments (Section 8) to low-income tenants in developments generally financed by the Agency.
- Purchased 105,780 home improvement and energy loans totaling \$564 million at below-market interest rates to low- and moderate-income homeowners for energy conservation measures, structural additions, interior and exterior remodeling, roofing, plumbing, heating and electrical repair and improvements which make homes more accessible to the physically challenged.
- Purchased 52,147 home mortgage loans totaling \$2.6 billion made at below-market interest rates and affordable terms to low- and moderate-income first-time home buyers.
- Provided down payment and/or monthly assistance totaling \$59.8 million to approximately 15,000 families who received home mortgage financing from MHFA.
- Provided 23,875 rehabilitation loans totaling over \$128 million to very low-income homeowners who do not repay the loan unless the property is sold or transferred within ten years of the loan date.
- Provided 1,632 mortgage and home improvement loans to urban and tribal Indians totaling \$52 million.
- Financed 2,257 units of transitional housing for homeless individuals and families.
- Provided prevention services and housing subsidies totaling \$11.8 million to more than 26,000 homeless and imminently homeless families.
- Provided materials and technical support for 52 organizations delivering or interested in delivering homebuyer training and/or counseling services and awarded grants totaling \$.83 million to 32 nonprofit organizations for the provision of comprehensive homebuyer training to approximately 3,700 potential low- and moderate-income first-time homebuyers.
- Allocated \$44 million in annual Low Income Housing Tax Credits to 416 developments providing over 13,750 units of affordable rental housing.

Since its inception, the Agency has issued \$5.9 billion in bonds and notes to raise capital for some of the various loan programs the Agency provides. The ability to raise affordable capital and make it available for a variety of programs in all areas of the State is an important ongoing objective of the Agency. The Agency maintains AA and Aa2 general obligation bond ratings from Standard & Poor's Ratings Services and Moody's Investors Service, respectively. As a result of these ratings, the Agency has found a broader market for its tax-exempt bonds. The ratings have also benefited the Agency in the sale of its taxable bonds. The Agency continues to be recognized by Standard & Poor's Ratings Services as a "top tier" agency.

Agency programs have been funded by using a diverse combination of resources and a statewide delivery system that involves the cooperation of public and private organizations throughout the state. MHFA distributes its program funds for the development of both single family and multifamily housing through a one-stop comprehensive application process in partnership with other public and private organizations. In the Twin Cities metropolitan area, MHFA is joined by the Metropolitan Council and the Family Housing Fund to review and select projects based on Continuum of Care Plans and a Metropolitan Housing Investment Policy developed and adopted by the participating organizations. In Greater Minnesota, MHFA is joined by the Greater Minnesota Housing Fund and the Department of Trade and Economic Development to review and select projects using regional investment guidelines and Continuum of Care Plans.

Biennially, the Agency prepares an Affordable Housing Plan that sets forth the Agency's

overall financing plan. This plan is approved by the membership of the Agency (hereinafter referred to as the Board). For the 1998-1999 biennium, the plan includes funding for approximately 88 programs and other budget items totaling \$780 million in new activity. In addition, MHFA annually prepares a work plan and updates Minnesota's Consolidated Housing and Community Development Plan. The Agency is committed to improving its customer service by consolidating, streamlining, and simplifying program administration.

Separate from the audited financial statements, the Agency distributes quarterly disclosure reports for its homeownership program and semi-annual reports for its multifamily program.

The solid financial condition of the Agency continues to provide the means to effectively and creatively respond to the housing needs of individuals, families, and communities throughout Minnesota.

# Vision, mission, goals

## Mission Statement

We are committed to meeting Minnesotans' needs for decent, safe, affordable homes and stronger communities.

The following statements reflect our vision for the Agency in the next three-to-five years:

1. Our work to produce and preserve affordable homes recognizes that housing is an integral part of the human, social and economic fabric of our communities.
2. We are responsible stewards of public and private funds, and the people and homes in which we invest.
3. Our investments in people and their homes are made using strategic guidelines and plans which are cooperatively developed.
4. Our investment in housing reflects our responsibility to underserved people.
5. We achieve our mission in partnership with others through funding, training, technical assistance, education, advocacy, innovation and communication.
6. We are a unified staff, unified in our commitment to our mission, to our customers and partners, and to a workplace in which open communication, trust and respect for differences are the norm.
7. We are committed to training, education and professional development in support of our mission for each staff member, including opportunities for work and learning experiences with our customers and partners.

8. We have an integrated management system which is founded on setting goals and benchmarks, performing work of high quality, measuring our performance and acting upon the results in order to achieve our mission.
9. We have a management information infrastructure which is accessible, reliable and integrated and which employs a centralized data base as the principle source of information for planning, reporting, managing and improving Agency operations.
10. We preserve and strengthen our financial capacity by expanding and diversifying sources of capital, planning for contingencies and leveraging available capital.

## Agency goals

Each biennium, the Agency develops a work plan designed to implement this strategic vision. The Board reviews the work plan at the start of each program year and reviews accomplishments at the close of each program year.

The Commissioner meets with each member of senior staff every other month to review ongoing progress on the work plan.



# Key legislators/committees

## **Lead Senators:**

**Steve Novak**, Chair of Jobs, Energy and Community Development Committee

**Ellen Anderson**, Chair of Housing & Economic Development Subcommittee of Jobs, Energy & Community Development Committee

**Tracy Beckman**, Chair of Economic Development Budget Division

**Lead Republican: Ed Oliver**, member of Economic Development Budget Division

## **Other Senators interested in housing issues:**

**Jim Metzen**, member of Jobs, Energy & Community Development

**Randy Kelly**, member of Jobs, Energy & Community Development

**Linda Berglin**, Chair of Human Resources Finance Committee (Agency budget reviewed by this Committee)

## **Lead Representatives:**

**Karen Clark**, Chair of Housing & Housing Finance Division of Economic Development & International Trade Committee

**Steve Trimble**, member of Economic Development Finance Division

**Lead Republican: Jim Rhodes**, member of Housing Committee

## **Other Representatives Interested in Housing Issues:**

**Bob Gunther**, member of Economic Development Finance Division

**Andy Dawkins**, member of Tax Committee

# Key issues & constituencies

## ISSUES

The following factors are shaping development of policies and programs at the MHFA.

- **Low Vacancy Rates.** In the past several years, many parts of the state have experienced extremely low vacancy rates in rental housing. In the Twin Cities area the vacancy rate is well under 2%. Industry standards regard a 5% vacancy rate as a healthy environment. The low vacancy rates have pushed rents up to even higher levels.
- **Affordability Gap.** The costs of developing new housing, for either homeownership or rental, continues to far outstrip wage levels in lower paying and medium paying jobs. In the Twin Cities area, the cost of purchasing even existing housing for homeownership exceeds the wage level of the majority of newly created jobs in the region. The affordability gap is aggravated by the fact that wage earners in the majority of the newly created jobs cannot save money for a down payment and other entry costs because their earnings are insufficient.
- **Value Gap.** A value gap exists in many parts of Greater Minnesota and the older neighborhoods in the metro area between what it costs to build a single family home and its market value upon completion.
- **Property Tax Rates.** High rental property tax rates negatively impact the maintenance and efficient use of existing affordable rental housing and the development of new housing.
- **Increased Homelessness.** Between 1985 and 1997, the number of children experiencing homelessness increased by 731% in Minnesota. Homelessness, changing homes, and/or schools has a significant impact on student academic achievement.
- **Discrimination and Not in My Backyard (NIMBY).** Discrimination has been identified in the Analysis of Impediments to Fair Housing Choice as a major barrier in obtaining or developing affordable housing
- **Changing Federal Commitment to Housing.** Federal rental assistance subsidies which historically have been the major means of providing affordable housing to the lowest income households may see a very slight increase this year, for the first time in 4 years. Housing Credits, a primary financing tool for affordable rental housing, have been capped for more than ten years, effectively reducing the impact of the credits. Similarly, tax-exempt mortgage revenue bonds have been capped for more than ten years; that fact combined with certain IRS regulations, have reduced the amount of below market interest rate mortgage money available for low and moderate income first time homebuyers.
- **Increasing ability to opt out of Federal Assistance Programs.** More and more housing developments are in a position to command higher rents and leave federal assistance programs or are in need of substantial rehabilitation. Federally assisted rental housing is the most affordable housing available in the state. Over half of the federally assisted housing developments are for the elderly.
- **Complexity of Housing Development.** Housing development has grown in complexity and is increasingly dependent on an ability to marshal funding from a variety of sources.

## **Constituencies**

Much of the Agency's assistance is delivered through local lenders, community action programs, and local housing and redevelopment authorities. These organizations and entities are the Agency's partners.

MHFA is committed to coordinating its resources with other players in the affordable housing arena and to promoting comprehensive planning for housing development and maintenance, as demonstrated by the following strategies:

Regional investment guidelines - MHFA continues to work with regional advisory groups throughout the state to develop and refine regional investment guidelines which assist MHFA in making funding decisions.

Coordination with other funders - The Agency utilizes a joint application and review process in conjunction with the Family Housing Fund, the Greater Minnesota Housing Fund, and the Metropolitan Council for significant portions of its funding. Other state agencies and local units of government are consulted in making funding awards in order to better coordinate government resources.

Inter-Agency Stabilization Group (ISG) - The Agency, along with HUD, the cities of Minneapolis and St. Paul, and private foundations and nonprofit technical assistance providers meet regularly to devise coordinated strategies to address the needs of troubled rental properties in the center cities.

Continuum of Care Plans - The Agency requires that any application for funding for homeless-related resources be reviewed for consistency with the needs and priorities identified in the regional Continuum of Care

plans developed by regional committees. Continuum of Care plans assess homelessness, identify gaps in the regional service systems for homeless persons, and develop strategies to meet the needs of homeless persons in the region.

# Boards, commissions, task forces

Pursuant to Minn. Stat. §462A.04, the MHFA is a corporate body which consists of the Commissioner of the Department of Trade & Economic Development, the State Auditor, and 5 public members.

The Board meets on the fourth Thursday of each month. Please note that the terms of two Board members expire on January 1, 1999.

## **Current Board Composition**

### **Michael Finch, Chairman**

Director of Research Programs  
Term Expires January 1, 2002

### **Jay Novak, Vice Chair**

Commissioner, State Department of Trade and Economic Development  
Ex-officio

### **The Honorable Judith Dutcher**

State Auditor  
Ex-officio

### **Peter Bernier**

Construction Manager  
Term expires January 1, 2001

### **Lee J. Himle**

Insurance Agent Owner  
Term expires January 1, 1999

### **Jo Van Hovel**

Realtor  
Term expires January 1, 2000

### **Pamela K. Sleet**

Facility Manager  
Term expires January 1, 1999

## **Other Boards, Commissioners, Task Forces**

The chair of the MHFA Board appoints a member of the Board to sit on the Board of the Greater Minnesota Housing Fund.

The MHFA Board nominates two members of the Board of the Family Housing Fund.

The Commissioner convenes and chairs the Minnesota Interagency Task Force on Homelessness.

The Commissioner is a member of the Advisory Board to the Corporation for Supportive Housing.

The Commissioner is a member of the Minneapolis Affordable Housing Task Force.

The Multifamily Division co-sponsors and staffs the Interagency Stabilization Group with HUD, the Family Housing Fund and the cities of Minneapolis and St. Paul.

# Activity summary

The Agency's work plan is divided into three categories: ongoing work, special projects and improvement efforts. In September, 1997, the Board reviewed the critical special projects and improvement efforts which we planned for the 1997-1998 work year

This section reports on our progress on the 1997-1998 work plan, including highlights from our ongoing work. The Agency publishes an assessment each year showing activity levels and demographic data for each program.

## Special Projects

### **1. Performance Measurement**

Research and Policy staff helped develop a performance measurement proposal for annually determining whether or not we have met key policy indicators. The proposal is based on the Agency mission statement's twin goals of providing decent, safe, affordable homes and strengthening communities.

### **2. Homeownership Program/Section 8 and Public Housing**

The purpose of this program is both to help individual households achieve homeownership but also to free up federally-assisted housing for others on the waiting list. We developed this program in conjunction with the Minnesota Chapter of the National Association of Housing and Redevelopment Officials. Three pilot project partners have been selected -- the Southeast Multicounty HRA, the Scott County HRA, and Yorkdale Townhomes in Edina -- and the programs are beginning in the next month.

### **3. Agency-Wide Loan Commitment System**

The project, which has been named the Core Project, was started. The goal of the Core Project is to review and revise manual and automated processes so that the Agency's obligations at any point in time can be more quickly and accurately determined.

The analysis phase has been completed on schedule, with project team staff completing an accurate picture of the Agency's business needs and the related processes beginning with a Board-approved Affordable Housing Plan and continuing through disbursement. The next stage is the development of the picture of the "future" CORE processes which should be completed sometime this fall. We will then proceed to the design phase.

### **4. 4d Rental Property Tax Classification Implementation**

A cross-divisional, interagency team developed the policies and procedures for the successful implementation of the 4(d) property tax classification reform passed by the Legislature in the 1997 session.

We entered into contracts with approximately 50 organizations to monitor compliance with the 4d program and, in many cases, to inspect properties for compliance with housing quality standards. We received 3,100 applications for approximately 70,000 units of rental housing and certified lists of eligible properties to county assessors throughout the state by the end of June. Work is underway now on changes and improvements in the system.

### **5. Disaster Recovery**

Flood recovery efforts were ongoing throughout the year. Hundreds of loans to rehabilitate owner-occupied homes have been made. The rental rehabilitation projects,

which have involved an unprecedented and positive level of cooperation with the Department of Trade and Economic Development, are in the final stages of completion. For example, the rental rehabilitation work in East Grand Forks will probably be completed by the end of this calendar year.

Construction has begun on three new rental housing projects, two in East Grand Forks and one in Warren. Hundreds of incentive loans for new single family construction have been made. Staff has continued to be responsive and flexible when presented with unusual problems and changing needs in the various communities.

In the middle of the program year, tornadoes hit south central Minnesota, and the tornado incarnation of the Minnesota Recovers Task Force was pulled together. Staff developed recovery programs similar to the flood recovery efforts but modified them to fit the needs in St. Peter, Comfrey, Nicollet County and other places.

In addition, the Agency assigned a staff member to work full-time on a mobility leave at the Division of Emergency Management producing two "user's guides," one for local government officials and one for the state and federal agencies, based on what we have learned about long term recovery from major disasters. The oversight for this project will be the core members of the Minnesota Recovers Task Force.

## **Improvement Efforts**

### **6. Activity-Based Cost Accounting and Budgeting**

As the next step toward activity-based cost accounting, the Agency increased cost coding efforts which resulted both in an additional management tool and in significantly higher

overhead recovery from state and federal programs.

Division administrative budgets were implemented. Budgets and budget reports were developed for the Agency's cost ceiling and non-cost ceiling items.

Management and supervisory staff were trained in budgeting techniques to improve their non-program budgeting expertise.

### **7. Management Reports**

We have begun regularly using the managing reporting system which was substantially revised last program year. The focus on the management reporting system is quarterly meetings with the program divisions, finance and accounting staff, and the federal programs director to review a series of key reports with the Commissioner and Deputy Commissioner.

### **8. Follow-Up on Evaluation of the Rent Assistance for Family Stabilization Program (RAFS)**

The RAFS Program provides a shallow rent subsidy to families on public assistance who are participating in a self-sufficiency or educational program. We made extensive changes to the RAFS Program following the evaluation by the interns in the summer of 1997. Some changes required legislative approval which we did not achieve because the Governor vetoed the bill for reasons unrelated to our items. Staff has worked with RAFS participants to educate them about the changes.

### **9. Office Management Team Work Plan**

The Office Management Team, under Jeanne Wyszynski's leadership, was created and developed its first work plan.

We began work on records management issues with an initial focus on optical imaging.

Staff from Minnesota Historical Society (MHS) lent their expertise on records retention and Core Project activities with a view to utilizing electronic data.

Additional activities included understanding functional retention schedules and its role in the Agency; investigating open shelf filing systems; developing an inventory of Multifamily records; and responding to the Core Project brainstorming suggestions. The Team presented an overview of records management to Management Group.

#### **10. Lead Abatement Requirements**

The objective here is to implement the policy adopted by the Board that will ensure, to the extent feasible, that we take a consistent approach to lead abatement in Agency-financed projects regardless of the funding source. This effort will begin in November.

#### **Additional Work Plan Activities**

##### **11. Housing Tax Credits and Bonds: Cap Increase Campaigns**

The Agency spearheaded a stakeholder campaign to get the Minnesota Congressional delegation to sign on as co-sponsors of the bills to increase the amount of federal private activity bond cap and housing tax credits available to each state. We invited lenders, developers, local housing officials, and others to help urge the Minnesota delegation to co-sponsor these bills and we regularly updated this network on our progress. We achieved 90% cosponsorship for both private activity bond cap and housing credit cap increase.

We also served as the regional whip for state campaigns in the Midwest region. Along with the Metropolitan Council, the Minneapolis Community Development Agency and the Family Housing Fund, we met with an editor

of the Star Tribune and were successful in getting editorial support for the cap increases.

#### **12. Preservation of Federally-Assisted Housing**

The Agency's initiative to devote significant new resources to the preservation of federally-assisted housing was included by the Governor in his supplemental budget and adopted by the Legislature with broad bipartisan support. This is the first state initiative of its kind in the country.

Staff developed strategies to restructure and underwrite new loans for the preservation of federally-assisted housing projects using a variety of financing tools including the new \$10 million per year state appropriation. The Agency has reached agreement and closed on preservation loans totaling \$5,934,000 that will preserve 805 Section 8 units for the next 20 years.

#### **13. Year 2000 Compliance**

The Agency developed a plan for achieving Year 2000 compliance. The Information Systems Steering Committee which is comprised of the Commissioner, the Deputy Commissioner and key members of senior staff monitor progress on the plan at its twice-monthly meetings. The first semi-annual report to the Board was made in July.

#### **14. Outreach and Underserved Borrowers**

- The Agency worked with the Home Ownership Center to unify state comprehensive homebuyer training delivery models, which included participation in an intensive planning process, co-sponsorship of a summit pertaining to service delivery, joint educator and counselor training, co-sponsorship of a statewide housing counselors retreat and joint production of a

newsletter for educators, counselors and stakeholders.

In addition, we assigned a staff member to work on a mobility leave at the Home Ownership Center on consolidating and coordinating post-purchase and foreclosure prevention activities around the state.

- Through the efforts of the Agency Outreach Work Group, the highest-ever percentage of borrowers of color participated in the Minnesota Mortgage Program (as of 8/24/98). A difference of opinion with the Federal Reserve, which forced us to discontinue collecting certain demographic information on home improvement borrowers, was resolved.

#### **15. Information Systems Improvements**

- Electronic links with the Trustee and Department of Finance were completed. The Trustee connection allows the Agency to receive electronically all the transaction and holdings data for the bond funds. The Finance Department link lets the Agency send disbursement information straight from the system supporting the relevant housing program without data re-entry by Accounting staff.
- The AOD Investing system was installed. This eliminates manual calculation of interest accruals on the Agency's investment portfolio and reconciles with Trustee. It generates mark to market valuations required by GASB 31 and automates journal entries for investment-related activities.

#### **16. Organization and Staff Development**

- The Homes Division embarked on a major reorganization that will result in becoming more mission-driven in performance of work and in providing greater opportunities for staff. Seven work teams were created with seven professional and paraprofessional staff serving as team leaders. The homeownership functions at the Agency have historically divided home purchase and home improvement activity. Under the reorganization, programs are grouped more in accordance with how we deliver the program and who is the customer. For example, the Minnesota Mortgage Program and the Fix-Up Fund, a home purchase and a home improvement program respectively, are both consumer programs delivered by a large network of lenders and are now managed by one team.
- The Agency completed a job evaluation process for all of its professional finance and accounting jobs. The result was a more appropriate compensation range for the Finance/Accounting Job Track and a better fit for the level of competencies required to do the Agency's work. Staff at all levels in the Finance and Accounting Division took on different responsibilities which increased skills, added greater depth, and allowed some staff to focus on new important projects.



# Strategic plans/priority projects

## **BACKGROUND:**

In September of the odd-numbered years, following the Legislature's adoption of a biennial budget, the Board adopts the biennial Affordable Housing Plan and reviews the Agency's work plan for the upcoming two years. What follows are the highlights from the Agency's 1998-1999 work plan.

## **Special Projects**

1. We will explore ways to increase Agency support for the new construction of affordable single-family homes around the state, including better coordination with the Department of Trade and Economic Development and the Metropolitan Council.
2. In cooperation with the Home Ownership Center, we will explore the options for evaluating the effectiveness of homeownership training in Minnesota.
3. In light of our recent designation as a Participating Administrative Entity (PAE) by HUD, we will restructure the financing, as necessary, on eligible FHA-insured Section 8 projects. We will continue to await HUD's decision about devolving Section 8 contract administration responsibilities to states.
4. We will produce the first new and improved performance measurement report with data on indicators of our success on meeting policy objectives.
5. We will undertake an evaluation of PROGRES, our new classification and compensation system.
6. We will update the Agency's administrative growth assumptions, review our revised assumptions with the Board and recommend how to best manage our administrative costs.
7. Implementing the Year 2000 work plan will continue to be the highest priority information systems project.
8. We will renegotiate the Agency's lease.

## **Improvement Efforts**

1. We will develop a plan for implementing the recommendations from the summer program evaluation of the Community Rehabilitation Fund.
2. We will make major changes in the Multifamily application process and selection criteria to reduce the cost of housing and shorten the time between selection and construction by reducing the number of tax credit rounds; changing the timing of rounds to better match the construction season; shifting resources between rounds; balancing new construction and preservation goals; and modifying design criteria.
3. Cost coding will be expanded to all staff and include all programs on the Affordable Housing Plan as well as a limited set of additional activity codes. An electronic time sheet will be implemented to facilitate improved cost coding.
4. The design and implementation phases of the Core Project will continue with key staff from the four divisions assigned to the project.

# Upcoming events/important dates

Partnership in Affordable Housing Awards  
Program - November 20, 1998

MHFA Employee Recognition Day - January,  
1999

National Council of State Housing Agencies  
(NCSHA) Home & Housing Credit  
Underwriting Training - January 1999

NCSHA Opportunities in Section 8  
Restructuring Training - January, 1999

Multifamily Spring Conference - March, 1999

NCSHA Legislative Conference - February,  
1999

NCSHA Spring Conference - May, 1999

NCSHA Tax Credit Training - June, 1999

Affordable Homes Congress - Fall, 1999

Indian Housing Conference - Fall, 1999

NCSHA Annual Conference - Fall, 1999

# Budget and funding overview

## Affordable Housing Plan

In September of the odd-numbered years, following the Legislature's adoption of a biennial budget, the Board adopts the Affordable Housing Plan. The Plan sets forth the Agency's proposed two-year investment in housing. The current Affordable Housing Plan projects investment in new housing activity of approximately \$780 million.

The \$780 million comes from six funding sources: tax exempt bonds; taxable bonds; bond-restricted fund balances; board-restricted fund balances; federal resources; and state appropriations. The two pages following the narrative in this section show a summary of programs and activities from the current Affordable Housing Plan and the distribution of the six sources of funding for the Plan. A detailed Plan shows the specific sources of funding for each program and activity.

## State appropriations

State appropriations constitute approximately 10% of the resources in the Affordable Housing Plan.

The 1997 Legislature appropriated \$53,014,000 to MHFA for the '98-99 biennium. In addition, \$5,342,000 was appropriated for the same period as one-time only funding. In the 1998 Legislature, an additional \$10 million for FY '99 was appropriated for the preservation of federally assisted housing. This appropriation was base level funding. An additional \$5.6 million in one-time only was appropriated for FY '99. In recent years, the two most flexible of the

Agency programs, CRF and ARIF, have experienced the greatest growth.

The appropriated programs are all designed to meet at least one of two broad policy objectives: meeting the need for decent, safe, affordable housing or strengthening communities. There are 15 appropriated programs: the Affordable Rental Investment Fund (ARIF), the Housing Trust Fund, the Rental Assistance for Family Stabilization program (RAFS), Bridges, the Family Homeless Prevention and Assistance Program, the Community Rehabilitation Fund (CRF) program, Homeownership Assistance Fund (HAF), the Rehabilitation Loan program, Home Equity Conversion Counseling, Full Cycle Home Ownership Opportunities Services, Foreclosure Prevention and Assistance Program, the Minnesota Urban and Rural Homesteading (MURL) program, the Urban and Tribal Indian Programs, and the Nonprofit Capacity Building Grant program.

The income limits for these programs vary from program to program.

In recent years, the Agency has sought to consolidate programs whenever appropriate.

The appropriated programs often supplement amortizing debt programs funded from non-appropriated resources and provide assistance to the lowest income persons and households.

Assistance under the appropriated programs is provided as:

- Deferred Loans;
- Grants; or
- Rental Assistance.

The following chart indicates the base level funding for each of the appropriated programs:

	Dollars in Thousands		
	F.Y. 2000	F.Y. 2001	Biennial
Bridges	\$ 1,550	\$ 1,550	\$ 3,100
Family Homeless Prevention	2,875	2,875	5,750
Foreclosure Prevention & Assistance	583	583	1,166
RAFS	2,000	2,000	4,000
Housing Trust Fund	2,348	2,348	4,696
ARIF	16,493	16,493	32,986
Urban Indian	187	187	374
Tribal Indian Rural/Urban Homesteading (MURL)	186	186	372
Non-Profit Capacity	240	240	480
Community Rehab Fund (CRF)	2,900	2,900	5,800
Full Cycle Home-ownership Services	275	275	550
Rehabilitation Loan	4,287	4,287	8,574
Homeownership Assistance Fund (HAF)	900	900	900
Home Equity Conversion Counseling	(25)	(25)	-0-
Employer Matching Grant	800	800	1,600
<b>TOTAL</b>	<b>\$37,307</b>	<b>\$37,307</b>	<b>\$74,614</b>

### Administrative Budget

The budget for Agency operations in SFY 1999 is \$16.2 million. As the result of a legislative compromise in the 1970's, the Legislature sets a ceiling for a portion of the Agency's administrative budget. The cost ceiling for SFY 1999 is \$13.3 million. The three primary sources of funding for the Agency's operations are the spread and investment income from the issuance of bonds; the fees earned in connection with the administration of rental housing programs; and overhead recouped from federal funds or from interest earnings on state appropriations.

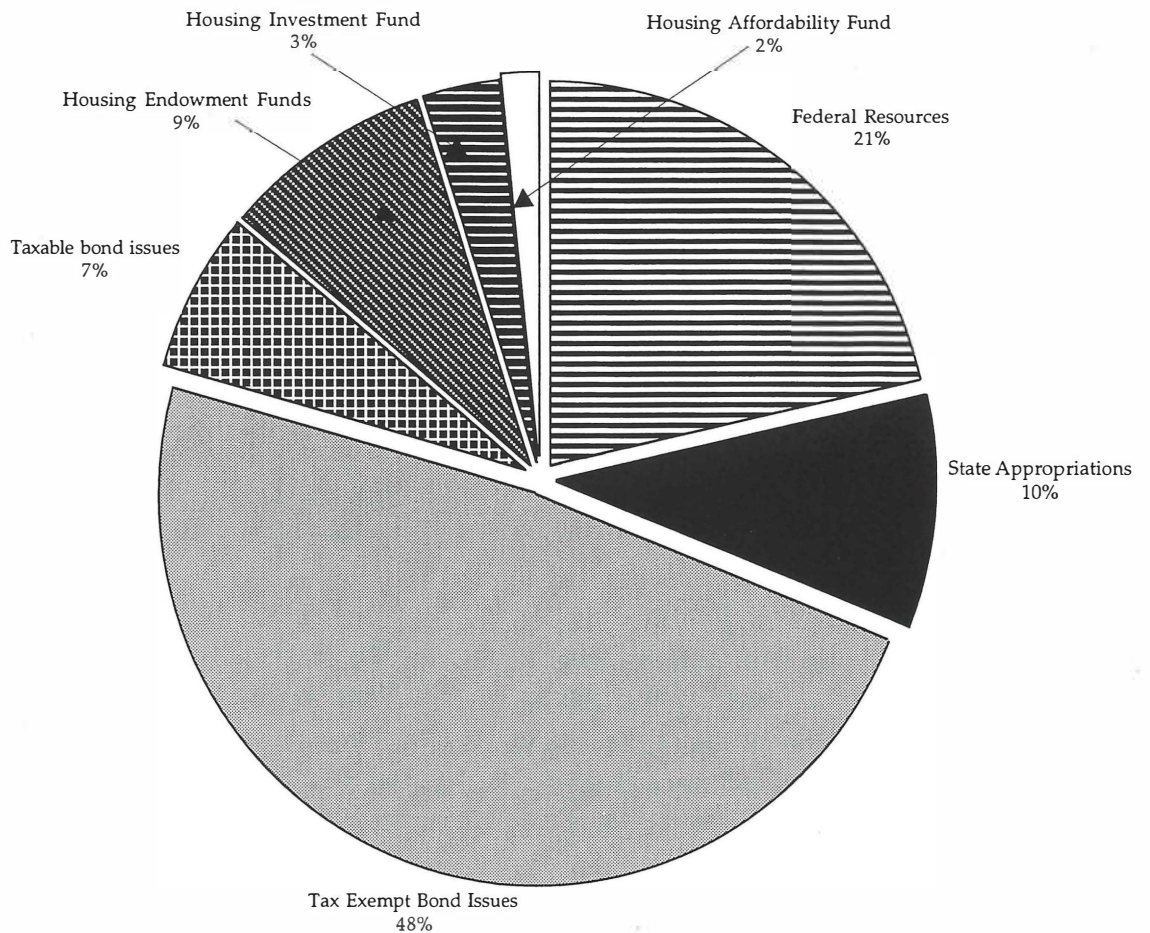
## Comprehensive List of Housing Resources/Programs to be Funded October 1, 1997 through September 30, 1999

Accessibility Loan Program	\$495,000
Accessibility - New Initiative	4,000,000
Community Rehabilitation Fund	12,870,000
Community Fix-up Fund	2,620,000
Deferred Loan Program	11,495,000
Emergency Loan Fund	640,000
Full Cycle Homeownership	600,000
Home Energy Loan Program	13,100,000
Life Cycle Housing Grant	250,000
Revolving Loan Program	6,435,000
The Great Minnesota Fix-up Fund	47,160,000
The Great Minnesota Fix-up Fund - Accessibility	2,225,000
<b>Home Improvement Total</b>	<b>\$101, 890, 000</b>
Entry Cost Homeownership Assistance Program	3,300,000
Foreclosure Prevention Assistance Program	1,060,000
Habitat for Humanity	1,950,000
Home Equity Conversion Counseling	50,000
Housing Trust Fund - Single Family	210,000
Innovative Housing Loan Program	1,205,000
Interim Lending Initiatives	9,750,000
Minnesota Mortgage Program	380,930,000
Minnesota Urban and Rural Homesteading	3,345,000
Tribal Indian Housing Program	3,365,000
Urban Indian Housing Program	925,000
<b>Homeownership Total</b>	<b>\$406,090,000</b>

Affordable Rental Investment Fund	\$16,840,000
Bridges	3,100,000
Demonstration Model	510,000
Family Homeless Prevention and Assistance Program	5,770,000
HOME Rental Rehabilitation Program	12,865,000
Housing Opportunities for Persons with AIDS	385,000
Housing Trust Fund	7,095,000
Low and Moderate Income Rental Program	38,915,000
Low Income Housing Tax Credit Program	12,000,000
Neighborhood Land Trusts	100,000
New Construction Tax Credit Mortgage Bridge Loan Program	11,700,000
Nonprofit & Regional Capacity Building Grant Program	575,000
Nonprofit Capacity Building Loan Program	820,000
Publicly Owned Land Trusts	630,000
Publicly Owned Transitional Housing	2,500,000
Rental Assistance for Family Stabilization	5,500,000
Rental Rehabilitation Loan Program	3,275,000
Targeted HOME Fund	1,880,000
Tenant Service Coordination	1,240,000
HUD Section 8 Housing Payments & Section 236 Program	134,365,000
Youth Employment Incentives	100,000
<b>Multifamily Total</b>	<b>\$260,165,000</b>

# Distribution of Projected Funding Sources

**Total:  
\$768,145,000**



# Organization, divisions, and staffing

The Agency has five major divisions. The attached organizational chart shows the full time equivalents (FTEs) assigned to each division.

## **Accounting and Finance**

The Accounting and Finance Division has a director and one supervisor and is structured into two major sections. The finance section has two work groups: debt issuance and debt management. The accounting section has four work groups: loan portfolios, investment portfolios, financial reporting, and state accounting.

## **Administration**

The Administration Division includes the senior staff members in charge of the following activities: communications, fair housing, federal programs and policy, human resources, intergovernmental relations, office management, and research and policy. The human resources, intergovernmental relations, office management, and research sections have additional staff as indicated on the organizational chart. The position of Fair Housing Director is the only management position currently vacant.

## **Homes**

The mission of the Homes Division is to support successful homeownership. The Homes Divisions is lead by a Director and an Operations Manager. The Homes Division accomplishes its mission through mortgage products, programs, and services focused on a continuum from homeownership training and pre-purchase support, home purchase and downpayment assistance, post-purchase

support, home improvement lending, and foreclosure prevention and assistance.

The Division has three sections with three supervisors: single family programs, single family housing support, and administrative support. The programs section has three work groups: consumer lending, community lending, and community revitalization programs. The housing support section has two work groups: homebuyer support and portfolio management and quality control. The Administrative Support section has two work groups: administrative support and program support.

## **Information Systems**

The Information Systems Division includes both state employees and contract professionals. The Division is lead by a Director and a supervisor who both supervises the state employees and oversees the project management work of the contractors.

## **Multifamily**

The mission of the multifamily division is to preserve and provide decent and affordable rental housing and stronger communities for low and moderate income households. The Multifamily Division is lead by a Director and an Operations Manager. The Multifamily Division accomplishes its mission through three broad types of activity: the production of new permanent and transitional housing, the rehabilitation and preservation of existing affordable rental housing; and rent assistance, homeless prevention, and resident support programs.

The division is divided into four sections with four supervisors: production services, management services, professional support, and administrative support. The production section has five work groups: tax credits, legal, first mortgages, deferred loans, and rental

rehabilitation. The management services staff oversee the management and operation of developments financed over the years.

The professional support section includes the three architects, the multifamily accounting staff, the market analyst, and the 4d property tax staff. The administrative support section includes all the paraprofessional staff.

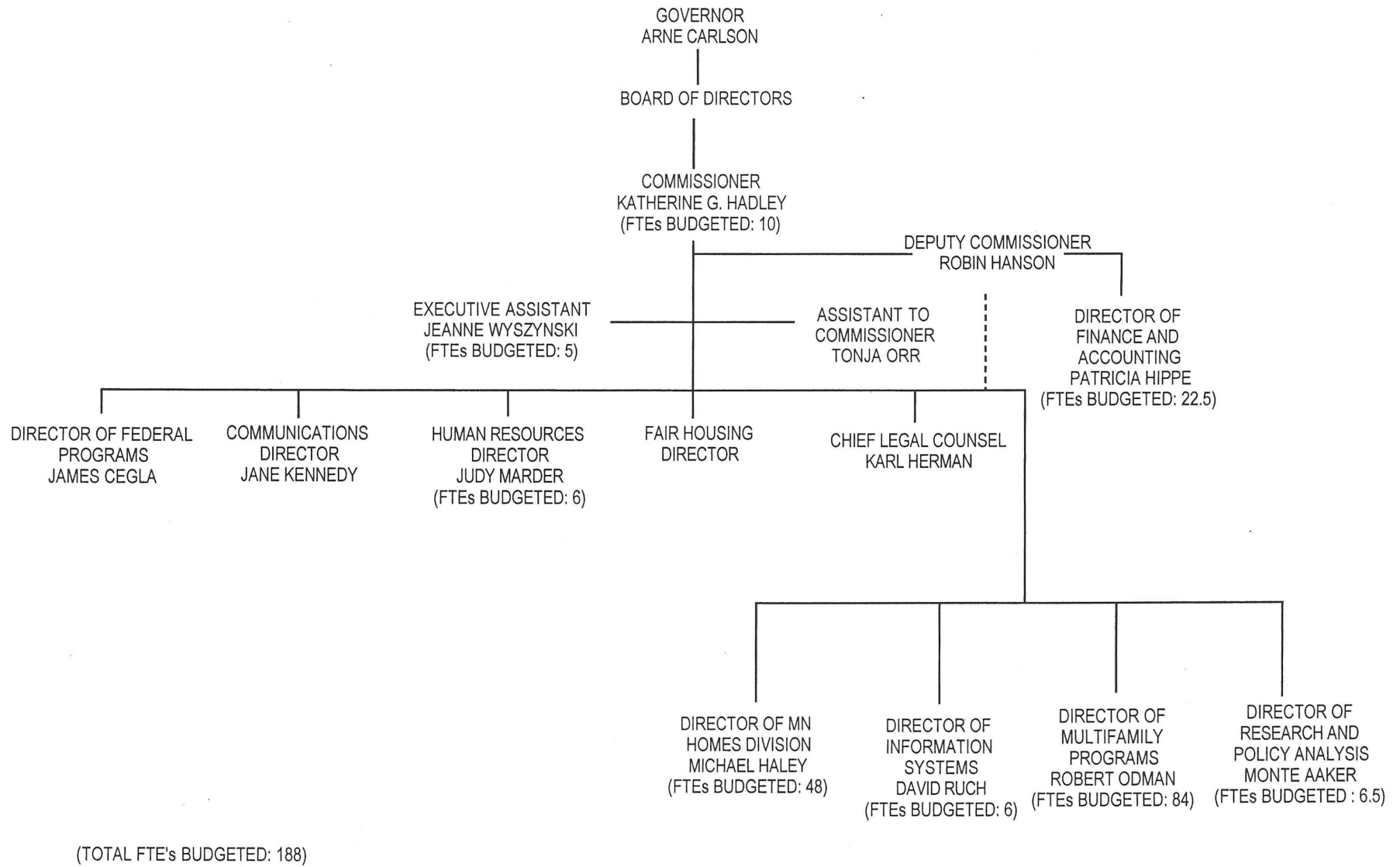
Please note that 20 of the FTE's assigned to the Multifamily Division are intended for Section 8 contract administration of HUD-insured properties should this devolution ever occur.

### **Special notes**

The Agency is undertaking a telecommuting pilot project in the Multifamily Division, involving four professionals in the Management Services section. An evaluation of the project is underway.

Two supervisors from the Homes Division are on two-year mobility assignments. One is working at the Division of Emergency Management compiling lessons learned from recent disaster recovery efforts and preparing user's guides for local and state governments. The other is at the Homeownership Center strengthening and consolidating statewide post-purchase and foreclosure prevention efforts.





# Financial management and 1998 highlights

## Financial Management Overview

The financial operations of the Agency are lead by the Deputy, Robin Hanson, who functions as a chief financial officer. The finance team, which is selected pursuant to a request for proposals (RFP) issued once every four years, is PaineWebber, Dain Rauscher, and Piper Jaffrey. The audit firm - currently KPMG Peat Marwick - changes every four years according to Board policy. The bond trustee is Norwest Bank.

The Board hires an independent financial advisor, pursuant to an RFP issued once every four years. The financial advisor is Evensen Dodge. Evensen participates in the structuring of each bond sale; provides a recommendation to the Board at the time of each bond sale; does a post-sale analysis after each bond sale; conducts a mid-course evaluation of the finance team; and works on special projects.

The Agency obtains bond ratings from Standard and Poor's and Moody's for each bond sale. In addition, MHFA is one of a handful of states that obtains a general obligation rating on the financial strength of the Agency as a whole.

Every four to five years, the Agency undertakes a comprehensive analysis of its financial condition, including the exposure to interest rate changes and loan losses, to determine whether the level of security is sufficient and whether additional resources can be invested in affordable housing.

## Financial Highlights - 1998

The following summarizes the highlights of the past year:

### New Accounting Standard

Effective July 1, 1997, the Agency adopted Statement No. 31 of the Governmental Accounting Standards Board (GASB), *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This standard requires investment securities to be carried at fair market value and establishes standards for computing and recording unrealized gains and losses on investment securities and for restating prior periods. Due to prevailing market conditions throughout the past few years, the Agency's investment portfolio produced large, unrealized gains as a result of the application of this standard. Several efforts were undertaken to educate readers of the Agency's financial statements about the intangible nature of these gains.

### Debt Management

The Agency continued to investigate and utilize available debt management techniques in order to achieve its goals of reducing interest expense and preserving the maximum possible amount of tax-exempt bonding authority.

By using available funds, the Agency continued to reduce its interest expense by optionally redeeming high rate debt. During the year, funds from the Residential Housing Finance Bond Resolution's Housing Investment Fund were advanced for the purpose of acquiring loans from the Single Family Mortgage Bond Resolution and optionally redeeming the underlying debt. This action will result over time in a nearly 300 basis point enhancement of investment earnings for the Housing Investment Fund and will reduced interest expense for the Single Family Mortgage Bond Resolution.

As of June 30, 1998, the Agency issued a redemption notice to fully retire the Multi-family Housing Resolution bonds. This action will result in increased interest earnings for the Agency as investments with generally lower yields were used to retire higher-rate debt.

The Agency was able to utilize other available funds within the Single Family Mortgage Bond Resolution to cross-call certain high rate bonds. Significant savings will be achieved as funds from series with average interest expense of 6.875% were used to call bonds from series where the average interest expense was 7.85%.

By refining the application of the 32-year rule to bonds it was redeeming, the Agency was able to extend the refunding life of its authority thereby improving its structuring value and reducing the its reliance on newly issued authority.

### **Year 2000 Compliance**

Work is underway to ensure that the Agency is year 2000 compliant. The Agency expects the financial impact of its conversion and testing efforts to be manageable with the costs spread over fiscal years 1998 through 2000. For a more complete discussion of the Agency's plans and progress-to-date, please refer to the Year 2000 Compliance disclosure in the footnotes to the financial statements.

### **Systems Infrastructure**

In recent years the Agency has dedicated significant resources to improving its information systems infrastructure. This year was no exception. Two more accounting systems provided by Application Oriented Designs were installed. The investing system provides more automation of routine investment-related accounting tasks. The single family master servicing system installation is underway and will dramatically

change the reconciling of the Agency's homeownership portfolio and will make available internally accessible, loan-level information.

The Agency is in the middle of a major, Agencywide development effort designed to track funds from program creation through disbursement across all programs. In addition to increasing automation, goals include streamlining cumbersome processes, increasing processing consistency across programs and providing management better funds management tools.

### **Disclosure**

The Agency continued to demonstrate its commitment to voluntary secondary market disclosure by providing its quarterly single family and semi-annual multifamily disclosure reports to the Nationally Recognized Municipal Securities Information Repositories on a timely basis. Efforts to increase internal awareness among its staff and Board of its obligations under SEC rule 15c2-12 were promoted. Responsibility for disclosure report production and integrity was assigned this year to the analyst primarily responsible for external investor relations. The Agency also began to investigate the possibility of disseminating the reports via the internet.

### **General Obligation Ratings**

General obligation ratings of AA by Standard & Poor's Ratings Services and Aa2 by Moody's Investors Service continued to be affirmed. These ratings recognize the Agency's strong financial condition, its competent management and the State's support of affordable housing over the last 27 years. The ratings continue to assist the Agency in finding a broader market for its bonds, particularly those which are taxable.

# PROGRES: MHFA's human resource innovation

## Background

In July 1993, the Minnesota Legislature enacted a bill that directed the Housing Finance Agency to challenge the current civil service system and create new processes that would improve customer service to Minnesotans through employee-supportive policies and procedures.

In September 1993, an Agencywide Labor-Management Committee was formed that continues today to monitor and review the PROGRES system, a competency-based classification system that reduced 52 civil service classifications into 7 job families. PROGRES (**PRO**moting **G**rowth and **RE**cognizing **E**xperiences) adopts a broad banding approach where related job classifications are collapsed into job families or "job tracks." Originally aimed at re-engineering only the classification system, PROGRES eventually grew to incorporate other human resources systems: performance evaluation, selection, recruitment, performance development and compensation.

## Description of the PROGRES System

The PROGRES System is an alternative to the current job classification system. Like the current system, PROGRES is a way of identifying and describing the different kinds of jobs in the Agency. Three main job groups, representing similar, related jobs, were identified: paraprofessional, professional and management. These three job groups are

further divided into seven job families or "job tracks" as follows:

Job Group	Job Track
Paraprofessional	Paraprofessional
Professional	Housing Program/Policy Professional Finance/Accounting Professional Human Resources Professional Information Systems Professional
Management	Supervisor Manager

## Tools of the PROGRES System

PROGRES defines jobs in terms of the knowledge, skills, abilities and behaviors needed to do the job. This makes the comparability of jobs possible. For instance, two employees may be doing different tasks but are using the same skills, or two employees may be assigned the same task but operate at different skill levels. In both cases, PROGRES values similar jobs equitably and recognizes the individuality of the job.

**Job Tracks** and **Job Profiles** are the tools for identifying and describing jobs in the PROGRES System.

A **job track** defines the different knowledge, skills, abilities and behaviors that have been identified as critical to job success within a job family. It simplifies the process of describing jobs by providing a menu of relevant competency statements, at different levels of knowledge and skill complexity, from which the supervisor and employee can select to create a meaningful and customized definition of the employee's job.

A **job profile** presents in summary form, the knowledge, skills, abilities and behaviors that the employee must demonstrate to be successful in his/her specific job. It also indicates the appropriate compensation range for the job.

